

May 10, 1995

LETTER 1173

THE MARKET: The divisor on the Dow is now 0.361, which means that every point on a Dow stock is worth 2.7 points on the D-J Industrial Average. If each of the 30 Dow stocks rises one point, that's equal to 81 points on the Dow. At this altitude a rise of 380 Dow points is equal to a percentage rise of 9% on the Dow (as an interesting comparison, at its 1929 *high* the entire price of the Dow was only 381). But the Dow rise since December 1994 has nevertheless been spectacular, and it has pushed the Dow to a micro-yield of 2.52%. That's the **lowest Dow yield** in stock market history.

Question: When does a primary bear market start? **Answer:** On the day when the market has discounted the VERY BEST that lies ahead. The problem -- to identify that day -- or week or even the month.

The Dow's parabolic rise reminds me quite a bit of the gold rise during 1979 -- the rise to the great top in 1980. Gold's advance to the 850 level was amazing, and the subsequent decline (limit after limit down) was just as amazing. These *parabolic rises* comprise one of the most dramatic displays put on by the stock market. They are a product of human emotion, and the name of the emotion is greed. Greed to grab quick profits, greed fired up by rising stock market momentum, greed based on the public's desire to get in "before the market goes even higher."

The recent action goes against everything we know regarding accumulation or "smart" buying. Smart buying takes place when the market is quiet and when volume is relatively low. Smart buying takes place when stock values are "juicy," but when nobody wants those great values. Smart buying takes place when the public is out of the market and thanking their lucky stars that they are "safe" and on the sidelines.

To someone who has watched markets for years (that's me), the current action is as fascinating as it is dangerous. Here's what I see -- on days when the market opened lower, frequently the early price marked the low price for the day. The market then spent the rest of the trading session recovering, with the Dow usually closing UP for the day. This action, when repeated, serves to tell the public that the market CAN'T GO DOWN. And even when the market does open lower, "it's a screaming buy, because come hell or high water, the Dow will invariably end up HIGHER by the end of the day."

Now a few words about bear markets and how they begin. Bear markets begin when the sun is shining brightest, when conditions just can't seem to get any better, when Wall Street and Main Street are overflowing with confidence, and when the possibility of a bear market beginning "feels" well nigh impossible.

"To walk a mile," runs the old proverb, "you must take a first step." The same is true of a primary bear market. To begin a bear market, you must have a first "down day." But obviously, you can't go through your investing career worrying that each and every down-day may be the beginning of a bear market.

Let's take it to the present. What are we looking at now? We have a market which is generating huge volume. We have a market with record public participation. We have a market which features over 8,000 mutual funds. As for sentiment -- currently the prevailing

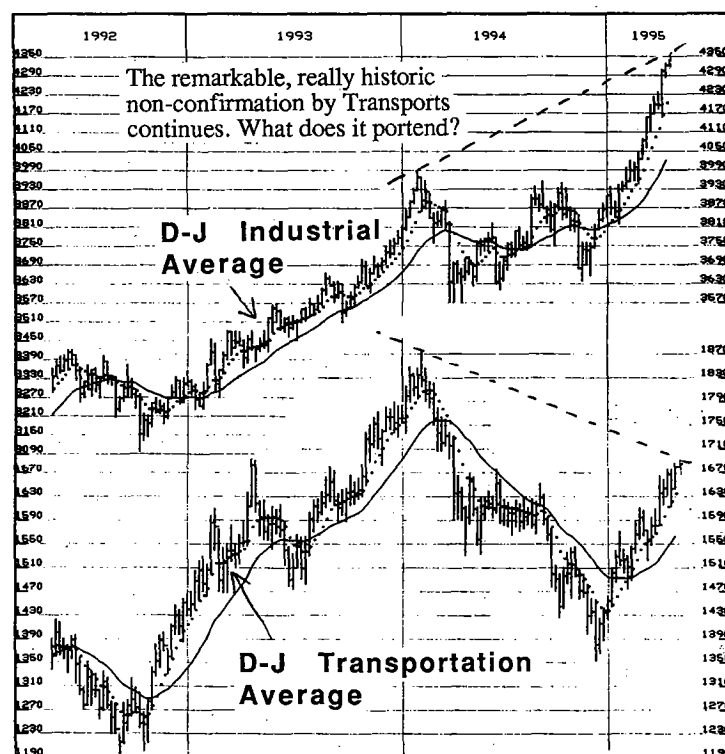
Apr. 28 DJIA 4321.27; PTI 4082; A-D Ratio -7.09
May 5 DJIA 4343.40; PTI 4092; A-D Ratio -6.75
Dow Yield: 2.52%; Dow Price/Earnings: 15.0
Dow 200-day MA: 3904; Dow 30-day MA: 4203
Dow Times Book Value: 3.88; PTI 89-day MA: 4011
Percentage of Undervalued Blue-chips: 8%
Gold 200-day MA: 384.26; Gold-PTI: 763

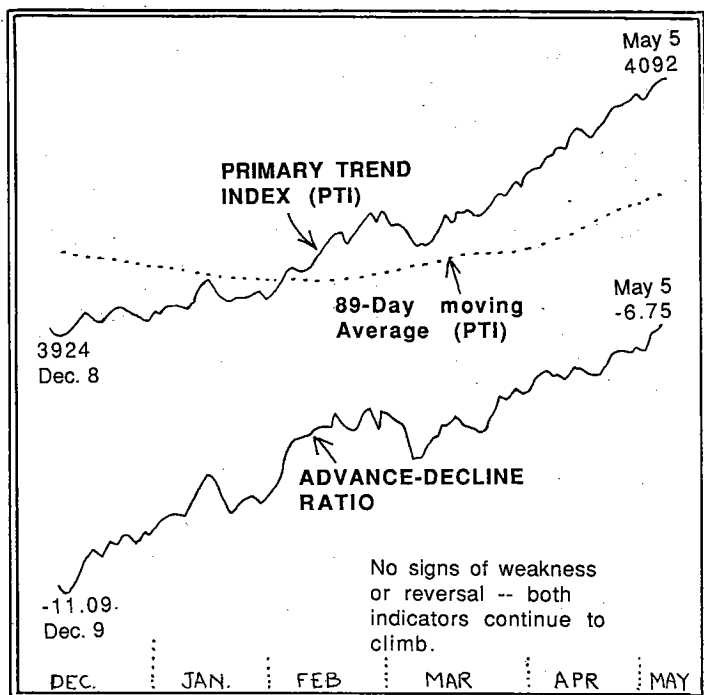
feeling is an overwhelming feeling of confidence and well-being. Example -- the recently crashing dollar was literally ignored by the market. When the dollar declined it was said that this was bullish because it would help our exports. When the dollar rallied it was said that this was bullish because it suggested confidence in the US and its future. When good business news emerges, it is taken bullishly by the market. When adverse business news emerges, it is taken bullishly because a slowdown or "soft landing" will be bullish. In other words, all news, good or bad, is interpreted only one way -- bullishly.

But the clincher, and I keep going back to this, I keep emphasizing this -- is **yield**, the return on investment. With the yield on the Dow down to a record low 2.52%, we realize that we are far, far into the danger zone. Only once before in stock market history has the Dow sold at so rich a price -- namely, an amazing 39.3 times its dividends. In the last letter (page 3) I included a study showing seventeen previous instances when price/dividends were at the high (expensive) end of the scale. In every case, the market topped out.

Maybe this time it will be different. Maybe this time we will experience the big exception. But any way you look at it the risk at present is high. And as I said, to walk a mile you have to take that first step.

Meanwhile, my **Primary Trend Index (PTI)**, which concentrates solely on market action, continues to climb. New high after new high is the picture here (page 2 chart).





FINANCIALS vs. TANGIBLES: One of the fascinating and continuing investment arguments entails the attractiveness of financials over tangibles -- or vice versa. The argument is particularly important today because investors are paying such a fat premium for financials. A history of the equation is seen on the chart below (chart courtesy of La Jolla's *Richland Report* by way of *Topline*).

On the chart we see three major trends. A fourth is not shown. The fourth is a massive rise of financial assets, a rise that began in 1921

and ended in 1929. From 1929 to 1942 both financials and tangible assets proved a poor place to be due to the massive deflation which accompanied the Depression. In reality, the ideal place to be during that period was in dollars (which during the '30s were widely held to be "as good as gold").

From 1942 to 1966 the preferred area was financials, specifically common stocks. In fact, the four-year period of 1942 to 1946 saw the greatest rise in market breadth in history -- literally every stock that wasn't nailed down surged higher.

The bull market in financials topped out in 1966. From 1966 to 1980 the place to be was tangibles. Houses, precious metals, jewelry, stamps, coins, art, antiques -- literally all tangibles advanced in price. The tangible bull market topped out in 1980 with gold at 850 and silver at 50.

During 1980 to 1982 financials were on the bargain table. This gave rise to the massive bull move in financial assets, a rise which began in 1982 and is still going on today. During this period of rising financial assets, stamps and coins broke in price, precious metals collapsed, housing prices faded, art prices collapsed. In general, tangibles turned out to be disastrous investments.

Meanwhile, the financials headed skyward. Thousands of mutual funds were formed, and the public lined up to buy these funds. Billions of dollars funneled into the stock and bond markets, as price/earnings ratios and price/dividend ratios went through the roof.

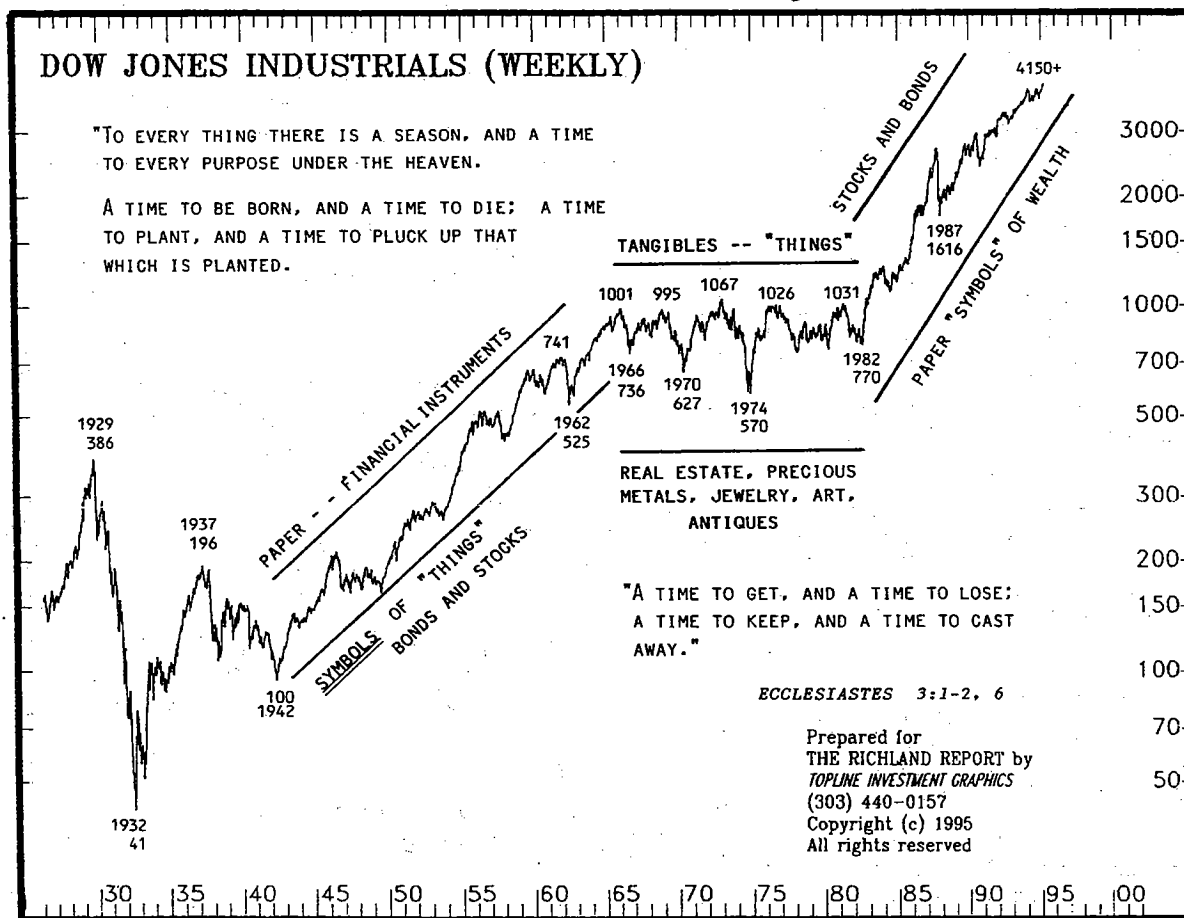
I include a second chart (page 3) courtesy of *Investor's Business Daily*. Here we see Tobin's Q-Ratio. The Ratio works like this -- compute and combine the market value of ALL equity and ALL fixed-income securities -- then divide this total by the total assets on the balance sheets of all US corporations. The result gives us an approximate relative value ratio.

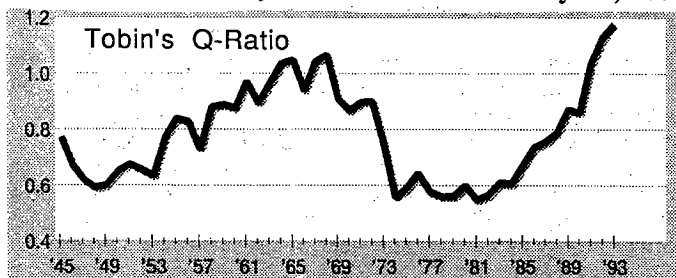
If the ratio rises above 1.0, financial assets are relatively more expensive than tangible assets. When the ratio drops below 1.0 tangible or real assets become relatively more expensive than

financials. At that point it is cheaper to buy financials than to construct a corporation.

At the end of '93 the ratio was 1.176. The '94 figure isn't out yet, but the thinking is that the ratio is roughly the same today, meaning that tangibles are cheap compared with financials.

At this time one can say that financial assets are more expensive relative to tangibles than at any time in recent history. Both charts tell us that we are moving ever-closer to the time when tangible assets will assert themselves, moving up in value against over-priced financials. Or (let's hope not) we will be going into a depressionary-collapse in which



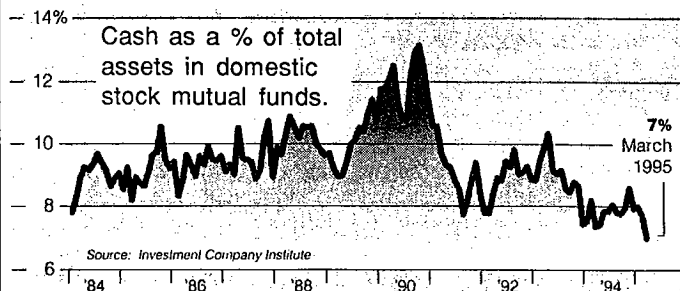


both tangibles and financials will head down together.

Question: What happens if the nation sinks into a major depression, but this time (unlike 1929-32) the dollar itself falls apart? If that occurs, my guess is that tangible items would be preferred, since a home or a ruby or a Picasso painting represents real, tangible value. Thus, an increasing number of depreciating dollars would be required to buy these real assets. Also, real assets in the US would still possess value in terms of hard currencies such as the yen or the D-mark. Nevertheless, a depression plus a dollar collapse would represent an unbelievably complicated situation. Russell guess -- if "everything goes," the standard of value would be the ultimate tangible -- real money. We call real money gold.

INVESTMENT POSITION:

Rather fascinating is this chart (*NY Times*, April 28) showing that cash held by domestic equity mutual funds is now down to 7.7% (end of March), lowest percentage since 1978. In other words, with the return on common stocks at its lowest level in history, funds are holding their lowest percentage of cash in the last 16 years. Markets change, nations change, the world changes, but human nature remains the same -- bearish at the bottom, bullish at the top.

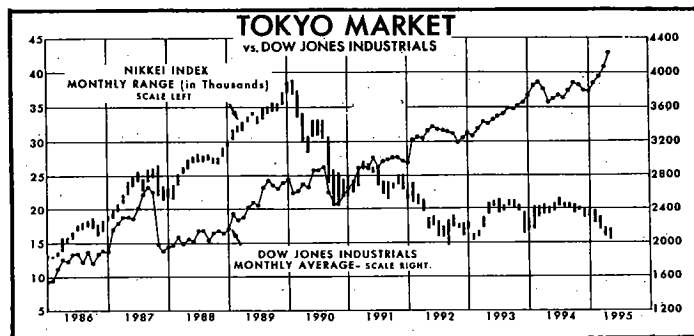


Question: Should we join the funds? My own inclination -- no. As for the box, it seems absurd to keep the bear in the box with the market pushing and pushing to the upside. Yet, that chart on page 1 plus all the other evidence bothers me to no end. So finally, reluctantly, I've replaced the bear with a question mark. We have record low yields and other danger signals, but now it's time to concentrate on market action. Watch the PTI -- that's where the story will be told.

NOTES & QUOTES: Dollar: Well, the G-7 group met and nothing happened. Coordination? A lot of talk and no action. Germany's Chancellor Helmut Kohl, in a speech two weeks ago, called Washington's unwillingness to further trim the huge US budget deficits as "not acceptable." And the Japanese state that the weak dollar is made in America. At the same time the IMF head chastised the Fed for not raising rates.

Then last week Clinton imposed unilateral trade sanctions on Iran. But no other nation followed. It was tantamount to an international snub. What's really happening? For one thing, the cold war is over. Consequently, Japan and Germany no longer need the US to protect them from Russia. Both Germany and Japan are tired of supporting America's spendthrift habits. The "kindness of overseas strangers" is coming to an end. Next, Japan is turning to Asia for its future. Japan has "lost its shirt" in its investments and loans to

the US. Conservative Germany is undoubtedly disgusted with the US dollar policy of "benign neglect." The rising D-mark is creating deflationary pressure in Germany, and this is undoubtedly generating German anger. So now we have a world where economically it's "every man for himself." The war of the '90s is an economic war. And the battle is just beginning.



Talk about international divergence -- and you have to wonder, how long can this go on? (chart courtesy of *United & Babson Investment Report*).

Income Tax: Writes Stephan Moore, director of Fiscal Policy Studies for the Cato Institute: "Why are we allowing taxes to destroy our country? Two trillion dollars a year is an awesome amount to expropriate from business and workers and families to pay for a government that doesn't work very well at all. The real tragedy is that even after taking in all that cash, our over-taxing government still manages to find itself up to its eyeballs in debt."

Speaking of taxes, holders of municipal bonds are starting to "sweat out" the possible imposition of a flat tax or national sales tax. If taxes are changed, what would happen to munis? Answer: They would sell like taxable bonds and would be based on their coupon and their ratings. But munis would sell for less than Treasuries.

The top 1% of Americans pay 27% of all the US income taxes. Is that fairness? The US, evidently, believes in confiscation of assets and confiscation of the fruits of our labor. In all the world, only the US and the Philippines tax on the basis of citizenship, rather than where you live. In other words, if you're an American living in France the US will tax your earnings (although there is an overseas exemption). The US has a high income tax, high capital gains taxes, taxes in one form or another in almost all states, often city taxes, often sales taxes plus double taxation of dividends. In my own case, for instance, I pay roughly 50 cents out of every dollar I make in the form of taxes. Even 85% of my Social Security (which I worked fifty-two years for) is taxed as income. Bring on the flat tax or the national sales tax -- I'm ready for any other tax system.

The shocker of the '96 election could be the Democrats' total loss of the South. Example: Louisiana has been a rock-solid for the Democrats. That's changing. W. J. Tauzan, long-term Democrat from Third Congressional District, is a founder of the moderate Democratic Leadership Council. Now Tauzan is thinking of switching to the Republican party. Here's what he says: "The President could have led. He could have led on welfare reform, he could have passed a sensible health care bill. He could have led the country, but he chose not to, and he's made himself irrelevant. He talked during the campaign as if he believed in a new, more conservative Democratic agenda, then abdicated it the minute he got in office. He has ruined the Democratic Leadership Council by completely destroying our credibility. The party could take the worst shellacking of its life down here with him leading the ticket if he vetoes welfare reform and supports affirmative action."

Merrill Lynch states that "on conventional purchasing power parity grounds, the dollar appears to be 27% undervalued against the D-mark and 47% undervalued against the yen." Then Merrill comes up with the following rather ominous paragraph: "We suspect that the current turmoil could foreshadow a tri-polar system of currency blocks that consist of a dollar block in the Americas, a D-mark

block in Europe, and a yen block in most of Asia. If that is the case, mathematical models will be of limited use in currency forecasting for the time being. As we see it, the dollar could remain weak for longer than most conventional forecasts assume, as central banks in Asia and Europe scramble to boost their official reserves of yen and D-marks at the expense of the dollar."

For many years the relative purchasing power of the various currencies was considered a prime mover of those currencies. But today the strength or weakness of a currency boils down to a simple equation -- supply/demand. Along these lines, the *Institute for International Economics* (a think tank) sees the US trade gap growing by 27% this year -- to a whopping \$200 billion. Worse, the Institute predicts that the \$200 billion gap will be with us for the next several years.

Bob Prechter (*Elliott Wave Theorist*) notes that there are now 8,135 mutual funds of all kinds, which is twice as many funds as stock issues on the NYSE and AMEX combined. Insanity? . . . Jim Grant (*Grant's Interest Rate Observer*) observes that there are now 13,277 chartered investment clubs, up from 3,629 in 1980. The public is obviously in love with stocks . . . Gerry Weiss, long-time keeper of the Dow's value, writes, "Like a rubber band stretched to the limit of its elasticity, the D-J Industrial Average looks ready to snap," adding, "Currently, there are no undervalued Dow stocks."

Social Security: An article in *Business Week* notes, "Right now, the great danger is that even the government's worst-case scenario may be too upbeat. The pace of real wage gains is the main determinant of how fast SS revenues grow. The most pessimistic official projection calls for wages to rise by an average of 0.4% annually over the next 35 years. But the economy has eked out only a 0.1% rate of real wage growth over the past five years. If earnings stay this depressed, SS cash flow could go negative much sooner than anyone has been willing to admit: 1997." **Russell Comment:** Is Murphy's law about to hit SS, meaning that whatever can go wrong, will go wrong?

Oil: (April 28) Iran suggested that Japanese oil companies, when they buy oil from Iran, pay for the oil in yen rather than dollars. The Japanese were not wild about the suggestion. Obviously, the Japanese would rather pay in cheap dollars than in expensive yen.

Olive Oil: Says Dr. Dean Ornish, heart expert, NO oil is good for you. All oils are 100% fat. From a weight standpoint, fat is fat. It doesn't matter if it's polyunsaturated, monounsaturated or saturated. Olive oil is 14% saturated fat. From a cardiovascular standpoint, the more saturated fat you eat, the higher your cholesterol level will be. Italian food lovers, take note.

Do newspapers tell the truth? Well, sort of, but you may have to read between the lines, and even then you don't get the real story. Conservatives complain about the bias of the liberal press. The *Center for Media and Public Affairs*, a non-partisan media research group based in DC analyzed five newspapers. Of the five, two were conservative, the *WSJ* and the *Washington Times*. The Center found that "the tone of every newspaper's front-page coverage matched the tone of its editorials." In other words, the front page articles were in line with the attitudes of the owners and editors. **Russell comment:** Liberal newspapers are a dime a dozen. For the conservative viewpoint, you have to read the *WSJ*, the *Washington Times* or *Investor's Business Daily*. The *Washington Times* has an excellent weekly edition as does the liberal *Washington Post*. Despite its almost totally predictable liberal editorials, nobody covers the news as thoroughly as the *NY Times*. I like the *Christian Science Monitor* for its excellent and well-written original articles, and I like the *International Herald Tribune* for its terrific world coverage and overall concentration of both economic, political and social news. By the way, the correct number to order the *Int. Herald Trib.* is (800)882-2884, in Canada it's (800)535-8913.

Booming newsprint costs are hitting newspaper profits. For instance, the *NY Times* expects to pay \$100 million more this year for newsprint. On top of that, circulation (latest six months) has

dropped in nine of the nation's 10 largest newspapers (only the *Boston Globe* posted a minor gain).

My old friend, Doug Casey (*Crisis Investing*) notes that the world's oil reserves stack up as follows: 66% of the world's oil reserves reside in the Middle East, 13% in Latin America, 6% in Africa, only 3% in the USA and only 2% in Europe. A number of experts believe that the stage is set for another oil crisis. The problem is the growing unrest in Saudi Arabia, which is now exporting eight million barrels of oil per day. Saudi Arabia has been profligate and a heavy spender. It has suffered a 42% drop in its national income and for the first time unemployment is rampant in Saudi Arabia. Even more ominous -- rich non-royal Saudis have been liquidating business and properties. King Fahd has, so far, kept a delicate balance in the kingdom, but if he dies, the likely heir is Prince Abdullab, a Muslim Fundamentalist who is openly anti-American. In all, it's a situation that could turn nasty in a hurry. Is this what the rising oil prices are telling us (or it oil rising simply because of the expanding oil needs of Asia and specifically China)? Russell's favorite oil stock -- Royal Dutch.

Collectibles: A friend just back from Monaco and Paris tells me that "nobody" is wearing Rolex watches in Europe, and that she saw very little "important jewelry" being worn, even in the most expensive hotels and restaurants. I guess the global fear of crime has a lot to do with that. Nevertheless, prices for good jewelry are still sky-high with some pieces bringing record high prices at auction. Art prices have also firmed up considerably, following the almost 50% collapse in art prices during early 1990. (Remember when a Japanese collector paid \$82 million for a Van Gogh?)

My wife, Faye, is extremely interested in photography, so I keep in fairly close touch with this field. I must admit that I never thought photography would be a big-money collectible field, but it certainly is now. We get the Christie and Sotheby photo auction catalogues, and prices run from a few thousand a photo to over \$100,000 for some rare photos.

Stamps have never really recovered from their great 1980s slump. Prime mint US stamps are selling at the same price they were selling for five and 10 years ago. Rare coins are no great shakes either, and emphasis in coins is now more than ever dependent on the condition of the coin.

Memories: Back in 1965 I looked longingly at a magnificent full-length Modigliani nude; the painting was at the Perls Gallery on Madison Avenue in NYC. I was told in hushed tones that the price for the painting was a huge \$300,000. Cut to the present: I note that a half-length Modigliani nude (not nearly as good as the one I saw in '65) is expected to bring \$10 million at a forthcoming Sotheby's auction. Ah, but \$300,000 felt like a carload of money back in 1965 (or to be honest, the purchasing power of the dollar has collapsed since the mid-'60s).

It's hard to believe this but according to an article in the latest issue of *Esquire* around 30% of US men are now less than full-time year-round workers. The article goes on to state the "baby-boom slackers are leading us into a future of exit strategies, 'voluntary simplicity,' and the end of the work ethic as we know it." The article states that the baby boomers want to get out of the rat race and into simplicity. "Hundreds of thousands, perhaps millions of men are banding together in a mass mystery that defies explanation. They are not turning on, they are not tuning in, but they are dropping out." **Russell comment:** I don't doubt it; I think it's a product of Americans' general disgust with, and resistance to, what's going on. And I think it also has to do with the high level of taxes, which militates towards either beating the system ("the underground" economy) or simply opting to get out of the system.

Just Statistics? It sounds incredible, but with the dollar slumping against the yen (it has firmed since) the GDP of Japan came close to surpassing that of the US. The estimate is that at 79 yen to the dollar, Japan would pass the US in the value of the total Gross Domestic Product. Actually, on the recent weakness the yen did get down to a low of 79.15, but then it rallied. Whew!

A major problem facing China today is the brain drain. Of 220,000 Chinese students who have gone abroad since 1979, only 75,000 have returned. Most have remained in the US or Canada. In a recent article in the official *People's Daily* newspaper, it was reported that Quinghua University, one of the China's top schools, has lost 60% of its biology students to other nations. The paper added, "The departure of the best students for overseas has created a shortage of talent and lack of researchers at China's universities and institutes." But -- under a new system announced this month, the State Education Commission will demand a commitment by scholars to a timely return as a precondition of government funding of overseas studies.

Last week my son asked me, "Dad, five hundred years from now, what do you think the US will be remembered for?" My answer (I've thought about this many times) was -- "The Constitution, the comics, Jazz and maybe, just maybe baseball and football." And yes, I was serious. Then he asked, "Five hundred years from now what one person of the last hundred years will be most recognized?" My answer -- "Pablo Picasso. Picasso changed our concept and perception of art, and art endures when everything else fades."

Serious about becoming an Olympic athlete? Then come to San Diego. The first phase of the new \$81 million Olympic Center here in San Diego is finished (to be used for training Olympic athletes). The center on lakefront property features an all-weather hockey field, four grass soccer fields, a state-of-the-art 400 meter track with adjacent throwing fields, a 15,000 square foot boathouse for rowing, kayaking and canoeing, four tennis courts, the largest permanent archery range in N. America, three coaching towers for viewing, and a 30,000 square foot athletes' center, an 18,000 square foot kitchen and three single story buildings for sports science and medicine plus much more. And, of course, it has San Diego's near-perfect weather.

Boys: My oldest daughter, Daria (who is pregnant) has two boys aged 3 and 6. My middle daughter, Betsy (who is also pregnant), has one boy, age 2. My wife's sister, Lori (she's not pregnant), has four young boys. Betsy called last week and announced (courtesy of the wonders of sonogram) that she will give birth to yes, another boy. That will make a total of eight boys. Where are the girls? Ah, Daria (another sonogram) just announced that in July she will give birth to, finally, -- A GIRL.

Speaking of kids, two weeks ago my son Ryan, age 17, went snow-boarding at Mount Bachelor, Oregon. He took a spill and fractured his wrist. So they put his arm in a cast. Last week (with his cast still on) Ryan went skate-boarding. He slipped on some sand and took another tumble. Result: bad fracture of his collar

bone. On went a sling-harness. Ryan is goalie for the varsity water polo team at La Jolla High. His frustrated coach wrote him a note: "What's next Ryan, sky-diving?" Latest, Ryan's in bed with the flu. Mmm, maybe it's more restful to have daughters.

A subscriber sent me an article from the *Las Vegas Sun*, and here are some interesting statistics (which you might consider next time you go "gaming"). Nevada gaming wins for 1994 -- \$7.006 billion (that's billion). Average win per slot machine -- \$28,201. Average win per game table -- \$485,099. Predicted number of people coming to Vegas this year -- 29.5 million. Average gambling budget for visitors coming to Vegas in 1994 -- \$480. Clark County's number of rooms available (hotels, motels, etc.) -- 100,000.

Vacations: I started this Letter in December, 1958. In all those 37 years I took one vacation that lasted eight days, but all the rest were four day vacations or less. But wait -- I'm not asking for sympathy. The honest truth is that the markets are my vacations and my fun. And I just don't like vacations that much. I hate the actual traveling, but it's the nights that drive me nuts. I'm used to getting up at 3:30 AM, so what happens if I'm on vacation? Well, I wake up late -- 4:30 AM, and then what? I can't get the newspapers, my poor wife, Faye, is asleep, and I don't want to wake her. So I turn on a little hand radio and listen to whatever is around (that's assuming that I can get reception). And I bounce around waiting for the sun to rise.

The truth is that I find most vacations boring. Or let me put it another way -- I find the markets more exciting than vacations. And I prefer the comforts of home to the vicissitudes of a resort hotel (and one more thing, I dislike living out of carrying bags). So, I'm a bit of a kook, but I'll admit that I did really like walking around Paris. So if someone can find a way to get me from San Diego to Paris in say, a few hours, I'll be ready to go. But 15 hours or whatever it takes to arrive at the City of Lights; no, I'll pass. In the meantime, if it's OK with my subscribers, I'll just hang out in gorgeous La Jolla.

Meanwhile, my wife Faye, is taking her first real vacation in five years -- she's off to Paris and London. A friend said, "Russell, you really ought to see Paris again." I replied, "Sounds good, where do I rent the video."

FAX it: For those wanting FAX service, we can supply it at an extra \$150 per year for US and Canada subscribers and an additional \$300 per year for foreign subscribers. If you want the Letters by FAX, call Pam at (619)454-0481.

Where do you want to live? This rundown from the British *Economist* suggests that the US is becoming a bargain place to live (that is, if you want to ignore taxes).

Place	Living cost index	Inflation %	Exch'ge rate £1 =	Place	Living cost index	Inflation %	Exch'ge rate £1 =	Place	Living cost index	Inflation %	Exch'ge rate £1 =
Japan, Tokyo	175.72	0.20	154.388	UK, London	100.00	2.40	1.0	Australia, Sydney	86.30	1.90	2.057
Seychelles, Victoria	136.00	2.50	7.707	Israel, Tel Aviv	100.46	13.80	4.765	Canada, Montreal	86.22	0.20	2.151
Switzerland, Geneva	132.62	0.50	2.064	Korea(S), Seoul	100.35	5.70	1242.495	Poland, Warsaw	86.10	36.10	37293.73
Taiwan, Taipei	128.50	5.10	40.994	UAE, Dubai	100.00	3.30	5.741	India, Bombay	86.00	11.20	49.054
Norway, Oslo	124.85	1.70	10.683	Switzerland, Zurich	100.00	0.50	2.064	Cyprus, Nicosia	85.58	4.60	0.749
Germany, Munich	119.00	2.80	2.437	Kuwait	99.67	2.40	.468	Canada, Toronto	85.50	0.20	2.151
Grenada, St George's	118.50	0.80	4.234	USA, Washington	99.56	2.60	1.563	Kenya, Nairobi	85.33	29.30	73.545
Syria, Damascus	117.67	4.30	35.954	Spain, Madrid	99.13	4.40	205.935	Chile, Santiago	85.29	8.30	649.894
Argentina, B Aires	117.57	3.40	1.564	N Zealand, Well'ton	99.00	1.40	2.52	Mauritius, P Louis	84.50	7.40	28.242
Barbados, Bridgetown	116.00	0.40	3.154	Peru, Lima	99.00	24.20	3.41	Mexico, Mex. City	83.70	6.70	7.68
Finland, Helsinki	114.74	1.90	7.516	Malta, Valletta	98.50	4.80	.577	Philippines, Mi'la	83.65	7.80	37.126
Hong Kong, Victoria	114.55	8.60	12.086	Fiji, Suva	98.00	1.00	2.232	USA, Houston	83.50	2.60	1.563
Belgium, Brussels	111.57	2.10	50.116	Morocco, Casablanca	97.17	3.70	13.958	Irish Rep, Dublin	82.75	2.50	1.014
Netherlands, Hague	110.67	2.80	2.73	Indonesia, Jakarta	93.64	9.20	3403.83	Tunisia, Tunis	82.67	4.90	1.548
France, Paris	109.93	1.60	8.372	USA, Chicago	93.43	2.60	1.563	Sri Lanka, Colombo	80.33	5.70	76.948
Italy, Milan	109.75	3.80	2528.451	Trinidad, P of Spn	93.00	7.70	8.821	Nepal, Kathmandu	80.33	5.90	77.466
Singapore	109.24	4.00	2.291	China, Beijing	92.33	27.70	13.303	Paraguay, Asuncion	79.33	20.80	3010.818
USA, New York	108.82	2.60	1.563	USA, Los Angeles	91.55	2.60	1.563	Panama City	79.30	1.30	1.563
Sweden, Stockholm	107.92	2.40	11.675	Portugal, Lisbon	91.54	4.60	248.76	India, New Delhi	78.50	11.20	49.054
Italy, Rome	106.21	3.80	2528.451	Bahrain	91.00	1.60	0.589	Hungary, Budapest	77.15	19.50	171.81
Luxemborg, Cst, Abidjan	104.60	1.90	50.116	Nicaragua, Managua	88.33	8.00	10.977	Pakistan, Islamabad	77.00	4.00	47.864
UAE, Abu Dhabi	103.67	3.30	5.741	Greece, Athens	87.59	11.10	375.689	Egypt, Cairo	76.94	6.40	5.323
Netherlands, Ams'dam	101.62	2.80	2.73	Jordan, Amman	87.33	3.40	1.094	Zimbabwe, Harare	74.67	23.60	13.06
S Arabia, Jeddah	101.00	0.40	5.863	Malaysia, K Lumpur	86.38	3.60	3.997	S Africa, J'burg	73.95	10.10	5.529
				Thailand, Bangkok	86.32	5.80	39.134	Czech Rep, Prague	71.22	10.70	43.798

GOLD: Last week the M-2 money supply shot up by \$10.6 billion. Hey, how can that be? Where'd the "money" come from? Who sweated for it? Who made a profit to create it? Who used his ingenuity to earn it? Who built something of value in order to increase the US money supply by over \$10 billion in a single week? Answer -- nobody, the \$10 billion was created out of "thin air" through a process controlled by the Federal Reserve system.

Consider this picture -- you've worked hard, over the years, and you've saved \$200,000. You saved that money after paying your taxes, after years of hard work, after years of thrift, after years of thinking and sweating and planning. And yet, what is that \$200,000? In reality, it's paper "money," it's fantasy money, it's money created by a system that never worked or sweated for it, it's money that actually represents debt. Your life savings simply represent debt-creation -- a pack of liabilities of the US government.

What about gold, real money? Gold is different. Gold cannot be created by anyone. The ancient alchemists spent decades, indeed spent their lives, trying to make gold from lead and other base metals. Of course, the poor devils never got anywhere. There's no way to conjure up gold. There's no way to turn lead or copper or zinc into gold.

Gold is brought out of the ground in small quantities by man's sweat, by man's investment of capital, by man's ingenuity. For this reason, gold represents real, tangible wealth. Since Biblical times gold has been both a much-desired precious metal -- and money.

Is it moral for a government to create something out of thin air and pronounce it money? Is it moral for a man or woman to work their whole lives for notes of credit (we still call them dollars) and then watch as those paper dollars buy less and less over the years? Could the US have run up \$5 trillion of debt were it not for the wholesale creation of the notes that we call dollars?

The current booming US over-population, the armies of the poor, the racial animosity, the dangerous streets, the whole shaky welfare state -- could any of these abominations have developed except for the government's ability to manufacture "dollars" out of thin air? Had gold and silver remained as money (as specifically stated in the US Constitution), this would be a much different nation today. And, many maintain, a much better and happier and saner nation.

Russell, are you implying that the current system of creating oceans of non-tangible paper money has laid the foundation for most of the nation's current troubles? Answer: Yes, I am.

But listen, the real problem is this -- ALL paper money, every fiat (non-tangible) currency in world history has eventually collapsed. Every denomination of paper money managed by governments has eventually ballooned in volume (since government politicians want more and more of it), and all balloons ultimately deflate.

At present each nation creates its own paper money, and at present all this paper money floats against other paper money. There's no anchor, there's no tangible base. One day the dollar is up against the peso and down against the yen. The next day the dollar is down against the D-mark and up against the British pound.

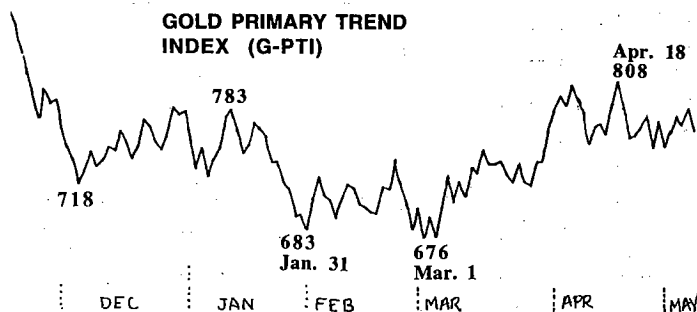
In all, it's a giant global central bank-balloon, and its fate is sealed. Its fate is ultimately to go "whoosh." It's not a question of whether, it's a question of WHEN? In the meantime, the dollar buys less and less, year after year.

Question: How can this system of competing fiat currencies go on? Answer: Confidence. People still have confidence in paper money. Of course, the confidence varies from high confidence in the Swiss franc and the D-mark to declining confidence in the dollar. As for the yen, it's just a matter of time (Russell opinion) before the yen (together with the Chinese yuan) becomes the currency of Asia.

The dollar is slowly losing out in Asia (and in the world's central banks, for that matter), but it takes time.

"Gad zooks, I should have bought silver." That's the way it looks so far, and the fact is that silver consumption is now outpacing silver production. Of course, there's a load of silver above ground, but the market looks at supply and demand and the supply/demand for silver is bullish.

However, it's hard to see silver in a bull market without gold joining the parade. My gold Primary Trend Index (G-PTI) is currently bouncing around in the 750-800 area. The G-PTI has been a winner in that it has provided us with an accurate technical picture of gold. It would seem that a good bottom has been put in for gold with the low hit on March 1 at 676 on the G-PTI. Where is gold going from here? I'll let the G-PTI tell us, but the next step is for the Index to advance above the 808 level recorded on April 18.



One major problem for gold is this -- the growth rate of US money supply is weak, very weak. In fact, MZM (see chart in the last Letter) is down to a no-growth rate. The growth rate of MZM (M-2 plus money market funds) has tended to precede the US economy by two years. If this holds, we should be heading into recession. And since recessions tend to be deflationary, that's a problem for gold.

However, if the US is headed into recession, I for one, do not foresee the widely heralded "soft landing." I see a mess based on mountains of debt in all areas. Remember, debt becomes an increasing burden when the economy slows down (as it is now doing, and we can see this in the slumping housing and auto markets).

LATE NOTES: I'm watching the action of the D-J Transportation Average. Remember, the Transports have never confirmed the series of new highs in the Dow. If Transports are now topping out (a possibility), this could be the first sign of trouble.

Note that the bonds have taken off on the upside, which means that they could be discounting either a soft landing or a recession or worse. If a recession lies ahead, at some point the stock market and the bond market are going to part company.

Bonds in a "normal" recession would head higher as yields decline and as the Fed lowers the discount rate. Note that I said "normal recession." But the nation is now *up to its neck in debt*, and in that condition a severe recession could trigger a liquidity crisis. If that happened, we could see an interest rate spike as everyone rushed to borrow money. (Why borrow? They'd borrow just to stay in business.)

Lots of ifs, ands, buts, in the above, but I want to cover various contingencies. Let me put it this way -- the public is bullish, the funds are bullish, the pros are talking "5,000 on the Dow" and a "good economy" right through 1996. The return on the investment in stocks is the lowest in history, the market's been churning, the Transports look topky -- and well, the whole picture is getting mighty interesting.

NEXT MAILING: May 24, 1995